

**STATE OF ALABAMA
DEPARTMENT OF INSURANCE
MONTGOMERY, ALABAMA**

REPORT ON FULL-SCOPE EXAMINATION

As of

DECEMBER 31, 2006

Of the

**KNIGHTS OF PETER CLAVER INSURANCE COMPANY, INC.
NEW ORLEANS, LOUISIANA**

PARTICIPATION:

**SOUTHEASTERN ZONE
ALABAMA**

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EXAMINATION AFFIDAVIT

STATE OF ALABAMA

COUNTY OF MONTGOMERY

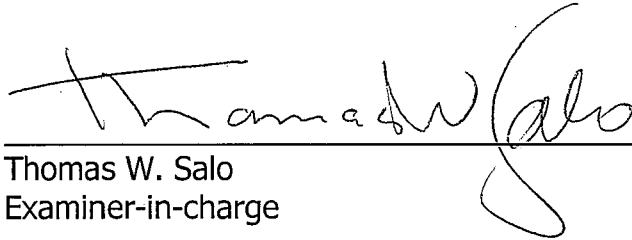
Thomas W. Salo being first duly sworn, upon his oath deposes and says:

That he is an examiner appointed by the Commissioner of Insurance for the State of Alabama;

That a full-scope examination was made of the affairs and financial condition of Knights of Peter Claver Insurance Company for the period of January 1, 2006 through December 31, 2006.

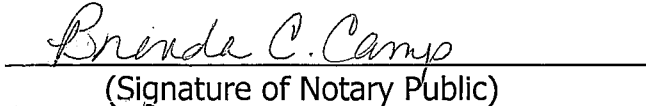
That the following 47 pages constitute the report thereon to the Commissioner of Insurance of the State of Alabama;

And, that the statements, exhibits, and data therein contained are true and correct to the best of his knowledge and belief.



Thomas W. Salo
Examiner-in-charge

Subscribed and sworn to before the undersigned authority this November 16, 2007,



(Signature of Notary Public)

Brenda C. Camp Notary Public
Printed name

in and for the State of Alabama

My commission expires 6/9/09



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GOVERNOR

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Dear Commissioners:

Pursuant to your instructions and in compliance with the statutory requirements of the State of Alabama and the resolutions adopted by the National Association of Insurance Commissioners, a limited-scope examination has been made of the affairs and financial condition of the:

Knights of Peter Claver Insurance Company, Inc.
New Orleans. Louisiana

at its home office located at 1825 Orleans Avenue, New Orleans, Louisiana as of December 31, 2006. The report of examination is submitted herewith. Where the description "Order" appears herein without qualification, it will be understood to indicate Knights of Peter Claver Insurance Company, Inc.

IDENTIFICATION OF THE COMPANY

The company being examined is Knights of Peter Claver Insurance Company, Inc. a non-profit fraternal benefit society with a lodge system and a representative form of government. The Order's home office is in New Orleans, Louisiana. However, because of severe damage to its home office in New Orleans, the Order temporarily relocated to Montgomery, Alabama while its home office was being repaired and renovated. The Company's main line of business is life insurance. The date of the last full-scope combined financial and market conduct examination covered the three-year period ended December 31, 2003, and was conducted by examiners from the Alabama Department of Insurance.

As previously mentioned, the Order suffered major damage as a result of Hurricane Katrina and the subsequent flooding that resulted from this major wind event. The Order's home office had several feet of water in it for approximately two weeks. Not only did the Order lose the use of its home office, it also lost its accountant/bookkeeper.

Hurricane Katrina and its flood waters not only closed down the home office of the Order, it also closed down the offices of the Order's long-standing opining CPA firm, Bruno & Tervalon. The Order was very dependent on this firm for their accounting and the Order had great difficulty in obtaining another CPA firm. It took an inordinate amount of time to contract another firm, and as a result, the Order was seriously delinquent in filing its 2005 Annual Statement. The Order has contracted with a new CPA firm, Banks, Finley, White & Company, of Birmingham, Alabama, to perform their annual independent audit and to prepare their quarterly and annual financial statements. The 2005 Annual Statement was finally received on or about November 17, 2006, approximately eight months after the normal deadline. A limited-scope examination was, in large part, triggered by the fact that the Order did not issue its 2005 Annual Statement or its 2005 Audited Financial Statements within their timeframes.

On or about September 21, 2006, the Order was placed under a Consent Order of Supervision by the Alabama Department of Insurance. The Order was placed under supervision because they had not submitted their December 31, 2005 Annual Statement by March 1, 2006 in accordance with the time frame prescribed by ALA CODE §27-34-36.

The Order was prohibited from engaging in the following transactions without the express written approval of the Commissioner of Insurance or his duly authorized Supervisor:

- a) Disposing of, conveying or encumbering any of the assets of Knights or its business in force;
- b) Withdrawing any monies from Knights' bank or checking accounts;
- c) Lending any of Knights' funds;
- d) Investing any of Knights' funds;
- e) Transferring any of Knights' properties;
- f) Incurring any debt, obligation or liability on behalf of Knights;
- g) Entering into any new reinsurance contract or treaty on behalf of Knights
- h) Issuing to the public any automobile warranty policies backed by Knights;
- i) Destroying any records including hard copy or software.

On or about January 25, 2007, the Order was issued a Show Cause Order because:

- The Order has not followed the NAIC Annual Statement instructions prescribed by the NAIC Accounting Practices and Procedures Manual as required by Department Regulation 482-1-097, nor has it filed other financial statements correctly. The statements beginning with December 31, 2005 and going through the September 30, 2006 quarterly statement are full of errors and inconsistencies.
- The Order has not fully cooperated with the Supervisor of the Alabama Department of Insurance (ALDOI) during its supervision.
- The Order's actuarial opinion and audited financial statements are full of errors and inconsistencies. Both appear to have little or no real supportive documentation.
- The Order, even though it is under the Supervision of ALDOI, has failed to respond to ALDOI's inquiries regarding errors found in its financial statements.
- The Order has not demonstrated any progress in hiring staff members with experience in statutory accounting.

On or about March 26, 2007 an Extension of the Consent Order of Supervision was issued and this Consent Order has since expired on or about September 21, 2007.

SCOPE OF THE EXAMINATION

This full-scope examination reported herein covers the period from January 1, 2004 through December 31, 2006, and has been conducted by examiners representing the State of Alabama Department of Insurance. Events subsequent to December 31, 2006, have been reviewed, and are reported herein, as deemed appropriate. A limited-scope of examination covering the period from January 1, 2004 through December 31, 2005 was previously conducted by the examiners representing the State of Alabama Department of Insurance and significant items from the limited-scope will be incorporated into the full-scope examination.

The full-scope examination has been conducted in accordance with statutory requirements of the *Alabama Insurance Code* and regulations and bulletins of the Alabama Department of Insurance; in accordance with the applicable guidelines and procedures of the National Association of Insurance Commissioners (NAIC); and in accordance with generally accepted examination standards.

Certain required elements relating to the areas of examination will be included in this report. However, where no exceptions were noted in particular areas, details of the various tests conducted are not included. If exceptions were identified as part of this examination, the details of the exceptions, the related tests, and recommendations are included in the appropriate sections of this Report of Examination.

Concerns that will be addressed in this full-scope examination are, but not limited to the following:

Aggregate Reserves for Life Certificates and Contracts

Loss reserves will be examined and tested by the actuary representing the Alabama Department of Insurance to determine their sufficiency.

Refurbishing of home office

The Order's home office was seriously damaged by the flood waters of Katrina. The renovation of the home office will be examined.

Records/files damaged by Hurricane Katrina's flood waters

Numerous records and files were put into storage after the flood waters receded. The legibility and usefulness of these documents will be examined.

Supervision

The Order was placed under formal supervision during the 2005 limited-scope examination and this supervision remains in force through the date of the 2006 full-scope examination. This topic will be discussed further under the "Subsequent Events" section of this examination report.

ORGANIZATION AND HISTORY

The Order was incorporated as a non-profit fraternal benefit society on November 7, 1909, in Mobile, Alabama, under the laws of the State of Alabama as "Knights of Peter Claver Insurance Company, Inc."

The objectives or purpose of the incorporation, as set forth in the Certificate of Incorporation, are as follows:

- The rendering of pecuniary aid to the members of the Knights of Peter Claver and beneficiaries of the members.
- The rendering of mutual aid and assistance to the sick and disabled members of the Knights of Peter Claver.
- The promotion of such social and intellectual intercourse among its members as shall be desirable and proper and by such lawful means as may seem best.
- The location and establishment of subordinate councils or other branches or divisions thereof, composed of members of said corporation, in any town or city of this state, or any state of the United States, or any foreign country, and such councils, branches or divisions so established shall be governed and managed by such laws, by-laws, rules and regulations as said corporation shall determine, and said corporation may enforce such laws, by-laws, rules and regulations against any subordinate council, branch or division by action at law in any court in this state or any state of the United States, or any court in any foreign country and all subordinate councils or other branches therefore established by said corporation shall be governed by such laws, by-laws, rules and regulations as are now in

force, or which may hereafter be adopted by said corporation by suit at law in this state or any state of the United States, or any court in any foreign country.

- The establishment, accumulation and management of a reserve or other fund in such manner and such amount as it may determine for the purpose of more effectually rendering aid and assistance to its members.

There are three classes of membership in the Order:

- 1) Insured members-entitled to all benefits of the Order.
- 2) Associate members- entitled to all benefits of the Order with the exception of insurance
- 3) Honorary members-consists of Priests, who may enjoy such membership without cost to themselves, shall not be assessed nor shall they receive insurance benefits unless they elect to become insured members by meeting all the requirements of such members.

FINANCIAL GROWTH OF THE ORDER

The following schedule presents financial data, which reflects the growth of the Order for the years indicated:

<u>Year</u>	<u>Net Written Premiums</u>	<u>Admitted Assets</u>	<u>Liabilities</u>	<u>Capital and Surplus</u>
2004	\$1,256,170	\$3,559,321	\$1,622,733	\$1,936,588
2005*	\$1,208,882	\$3,758,771	\$1,582,945	\$2,175,826
2006*	\$1,208,345	\$3,971,547	\$1,613,978	\$2,306,031

Items indicated with * are per examination. Other items are per the Order's financial statements.

MARKET CONDUCT ACTIVITIES

Territory and Plan of Operation

The review of Schedule T of the 2006 Annual Statement indicated that the Order was licensed to conduct business in nine states/territories: Alabama, District of Columbia, Louisiana, Maryland, Nebraska, Oklahoma, Pennsylvania, Texas, and Virginia. The Executive Director provided copies of the certificates of authority for these nine states, plus he provided a certificate of authority for South

Carolina. However, South Carolina was not indicated on Schedule T as a state where the Order is properly licensed.

The previous three examinations cited the Order for not being properly licensed in numerous states. The past Supreme Knight, Arthur McFarland, responded to a request during a previous examination and stated that the Order had applied for licenses in sixteen states: California, Georgia, Maryland, Missouri, Oklahoma, Virginia, District of Columbia, Illinois, Michigan, New Jersey, Pennsylvania, Florida, Kentucky, Mississippi, and Nebraska.

Per Schedule T of the 2006 Annual Statement, the Order has premiums which have been written in thirty-three states. To date, the Order was able to provide certificates of authority for only ten states as mentioned above. However, the Order continues to collect premiums in states where they were not duly licensed when the policies were originally written. Additionally, the Order is licensed in South Carolina, but they did not disclose this on Schedule T.

Prior to 1999, the Order issued insurance policies and collected premium payments from insured members in states in which the Order did not hold certificate of authority to engage in the business of insurance; and in 1999, the Order agreed with the Alabama Department of Insurance to cease writing policies in states where the Order did not hold certificates of authority but could collect premium payments on policies issued before the agreement date.

Membership in the Order is restricted to practicing Roman Catholics who, at the time of initiation or obligation, are eighteen and over for Knights and Ladies. For Junior Knights and Junior Daughters, the prospective member must be between the ages of seven and eighteen. The assessments and dues are collected by the financial secretary of the subordinate councils and courts and are reported monthly to the Order's home office.

Policy Forms and Underwriting

At December 31, 2006, the Company wrote only group term life insurance. The policy forms for this insurance were approved by the Alabama Department of Insurance on July 9, 1997.

Member Complaints

The Alabama Department of Insurance and the NAIC had no recorded complaints against the Order for the period covered by the examination. The Order did have a complaint register which included several telephone calls that were received. The context of the discussions was immaterial in nature and it appeared that the problems were quickly remedied.

Complaint Log and Documentation

The Order was maintaining a complaint register but it was not being maintained as defined by Complaint Handling Standard 1 of the NAIC Market Conduct Handbook, and ALA. CODE § 27-27-29(a) (1975), which states that an Order should maintain all records of its insurance transactions and affairs.

Complaint Procedures Manual

Although the Order had some procedures in place for the handling of complaints, the procedures were not adequate and did not appear to be easily communicated to policyholders, as defined in Complaint Handling Standard 2 of the NAIC Market Conduct Handbook.

Treatment of Claimants

To test the Order's claim payment practices, a sample of 50 death claims was selected from the 2006 paid death claims listing. Supporting detail was provided for these and the examination revealed that the Order was refunding premium payments on the same check utilized for death payments. Eight files were not furnished. It was difficult to determine date received and date paid on numerous files. At times, the NUM column (from the Paid Claim listing) referred to the certificate number of the claim and at other times, it referred to the check number of the specific claim. There were ten files that did not have a number reported in the NUM column at all. There was not a decedent name on nine files. One claim appeared to have been paid using a Xerox copy of the death certificate. (The Order's bylaws stipulate that only the original death certificate or certified copy can be used.) Three files indicated a certain amount for the death claim but the amount reported in the death claim listing was different.

With the omissions and discrepancies indicated in the supporting detail, the examiner can not determine that the Order is paying its claims within the 60 day time frame as prescribed by its by-laws.

Advertising

Advertising or promotion by the Order has been primarily accomplished through the publication of the national organ The Claverite which is distributed to the members of the Order.

Compliance with Agents' Licensing Requirements

The Order did not have any licensed agents.

REINSURANCE

The Order had no assumed or ceded reinsurance.

CONSIDERATION OF FRAUD

The Order provided its detailed Anti-Fraud Plan. Within this plan are procedures established to contact legal and regulatory authorities.

The Order's opining CPAs provided workpapers relating to fraud in their 2005 work, but there were no workpapers relating to fraud in the 2006 workpapers.

The Order's applications for insurance and its claim forms do not contain the necessary language relating to fraud.

PRIVACY PRACTICES

The Order has a Privacy Policy that it distributes annually to its members. Beginning in 2008, new members will be given a copy of this Privacy Policy when they are initiated.

EXAMINATION FINDINGS

Aggregate Reserves for Life Certificates and Contracts

For the 2005 limited-scope examination, the examiner requested the CPAs workpapers on the testing of reserves on numerous occasions and was promised that the workpapers were forthcoming. After several weeks of waiting and numerous unfulfilled promises, the examiner resorted to traveling to the CPAs office to retrieve the aforementioned workpapers. Upon arrival at the CPAs office, it was discovered that there were no CPA workpapers available to peruse and review that related to the testing of the opining actuary's reportings on reserves.

In response to the examiner's inquiries concerning why no audit procedures were performed on the opining actuary's work, and how it was determined that the reserves were fairly stated, the CPA audit manager responded that they depended entirely on the information provided by the opining actuary. The CPA audit manager stated that they reviewed the credentials and qualifications of the opining actuary, and found them satisfactory. As a result, the CPAs utilized his reported amounts in their entirety with no further testing.

The NAIC's Annual Statement Instructions state that:

"The insurer shall require the independent certified public accountant to subject the information included in the Supplemental Schedule of Assets and Liabilities...to the auditing procedures applied in the audit of the current statutory financial statements to determine whether the information is fairly stated in all material respects in relation to the basic statutory financial statements taken as a whole and agrees to the insurer's annual

statement filed with the state insurance departments and the NAIC."

No in-force tests were performed to verify the accuracy of the underlying records, no information was obtained, and no conclusions were reached pertinent to the CPA's examination of the opining actuary's reserve calculations; consequently, the examiners could not ascertain how the CPAs determined the reserves were fairly stated in relation to the statutory financial statements as a whole.

Further, the opining actuary is required to incorporate into the actuarial opinion the date he was appointed by the Board of Directors as the valuation actuary. The actuarial opinion provided by the opining actuary did not indicate such date. The opining actuary must also perform asset adequacy analysis. No such asset adequacy analysis workpapers were provided by the opining actuary. The Analysis of Increase in Reserves During the Year was not completed.

Also, during the examination, the Order could not provide the necessary detail and the subsequent calculation to enable the financial examiner to agree the amounts to Exhibit 5 of the 2005 Annual Statement, to the Exhibit of Life Insurance and to the General Ledger. It should be noted that the reserves shown in the worksheet do not agree with the amounts shown in the annual statement. In addition, there were no worksheets from the opining actuary that showed the derivation of the special contingency reserve, the group insurance reserve, the immediate payment of claims reserve or the nondeduction of deferred fractional premiums reserve.

The Order should maintain its records in accordance with ALA. CODE § 27-27-29(a)(1975), which states:

"Every domestic insurer shall have, and maintain, its principal place of business and home office in this state and shall keep therein complete records of its assets, transactions and affairs in accordance with such methods and systems as are customary or suitable as to the kind, or kinds, of insurance transacted."

Also, the opining actuary was unable to provide the methodology for calculating the incurred but not reported claim liability. The workpapers provided by the accounting firm did not provide enough detail to check the adequacy of the IBNR claim liability.

Within the Order's 2006 Annual Statement, The Analysis of Increase in Reserves and Notes to Financial Statements were not completed in accordance with the Annual Statement instructions. For the Analysis of Increase in Reserves, only the beginning and ending reserves and a balancing item were included in the

Analysis. None of the other items such as tabular interest, reserves released on death, etc., were included in the Analysis. The Notes to Financial Statements stated that tabular interest was not required, which is not a correct answer.

The 2003 full-scope examination revealed that the Order was using the 1958 Commissioners Standard Ordinary (CSO) Table of Mortality for the calculation of its reserves for Class "E" members. However, the Order's constitution and by-laws stipulates that the Order use the 1941 CSO Table of Mortality. In a hearing subsequent to the 2003 full-scope examination of the Order, the Commissioner of the Alabama Department of Insurance issued in Order C-2005-106JD, on October 13, 2005, that the Order had permission to use the 1958 CSO Table of Mortality and stated the following, "It is strongly recommended the Company conform any contrary provisions in its bylaws or constitution with regards to the issue of the 1941 vs. the 1958 CSO Mortality Table so as to eliminate any future confusion or possible problems."

However, during the 2006 Full-Scope Examination, the review of the Order's constitution and by-laws, Section 170, indicates that the mortality table has not been changed and the correct mortality table has not been indicated.

The Analysis of Increase in Reserves and Notes to Financial Statements were not completed in accordance with the Annual Statement instructions. For the Analysis of Increase in Reserves, only the beginning and ending reserves and a balancing item were included in the Analysis. None of the other items such as tabular interest, reserves released on death, etc., were included in the Analysis. The Notes to Financial Statements stated that tabular interest was not required, which is not a correct answer.

The reserve calculations for the limited-scope examination as of December 31, 2005, and the full-scope examination as of December 31, 2006, were certified by the Order's actuarial consultant, Harrison and Associates, College Park, Georgia.

Alternate In-Force Test

As part of the 2006 Full-Scope Examination of the Order, the examiners were to perform a procedure to verify the validity of the Order's 2006 in-force listing. Items such as: certificate number, issue date, issue age, face amount, birthdate, insured's name, and beneficiary are essential data that are reviewed for accuracy. The accuracy of these items could not be determined because the Order could not provide the necessary application files to support the sample that was selected by the examiners.

Since the application files were not available, the examiners developed an alternative procedure with which to test the accuracy and validity of the Order's in-force listing. The methodology of this procedure follows:

The Order was examined for year ends 2000 and 2003. There were certain samples chosen in each of those examinations and the examiner in charge was able to obtain a comfort level with the reserve determinants (issue age, issue date, face amount, etc.) for each of the policies and/ or certificates chosen in the samples. The policies and/or certificates chosen in the samples for 2006 do not contain any policies and/or certificates issued subsequent to 1999. Therefore, each of the policies and/or certificates chosen in the samples for 2006 had to be in force at 2000 and 2003.

The examiners selected a random sample from the 2006 In-Force listing which contained approximately 14,900 certificate numbers. On a pro-rata basis, there were 49 certificates selected from the Group Policies, 20 selected from the Individual Policies, and 7 selected from the Converted Policies.

The test began with the 49 certificates in the Group category. Many of the files in the sample revealed numerous issue dates occurring during the years 1998 and 2029. Further investigation revealed that these issue dates were found to be erroneous. The Order's IT Consultant, and individual in charge of the in-force database, stated that the original issue date of the policy had been changed in 2004, and in its place, the date associated when the insured opted for the 50 year rider was inserted. It is impossible for these policies to have an issue date in the year 1998 as these policies have been in existence 50 (fifty) + years. These 49 certificates from the 2006 In-Force run were compared to the 2003 In-Force run. This comparison indicated that within the sample of 49 certificate numbers, 22 certificates met this "year 1998 and 2029" issue date problem.

This issue was communicated to the Executive Director and the IT consultant. The IT Consultant realized the error and attempted to locate a file containing the Original Issue dates of the policies that contained the erroneous issue dates. She provided an updated listing and all but 12 of the exceptions were cleared. Ten of these were still for the issue date problem and 1 (one) could not be located at all while the other exception was erroneous in that the 2003 inforce run reports another person under this specific certificate number.

Since the 2006 In-Force run could not be validated, the reserves will be qualified as respects the 2006 examination report.

Refurbishing of Home Office

The Order's home office suffered severe damage as a result of the flood waters associated with Hurricane Katrina. The hurricane caused the levees to fail in New Orleans and the Order's home office was under two to three feet of water for over two weeks. Even though the Order had physical damage insurance, this coverage did not pay because the damage was associated with flooding and not the wind event itself. However, the Order did have flood insurance and the Order

received a total of \$398,254 for the damages as a result of the flooding. Rather than use this money to repair the home office, the Order elected to invest this money into commercial paper with the Whitney Bank which had a maturity of four months. After this matured, it was invested in a money market account with the Whitney Bank. The repairs to the home office were funded through normal cash flows.

The Order contracted the refurbishing of the home office with The Design Craft Company, Houston, Texas, for a contract price of \$273,960. The repairs were handled via twelve contract draws. After each segment of the repairs was completed, the building was inspected by appointed members of the Board of Directors to determine that the specific repairs were in fact, completed. If the inspection was satisfactory, the contractor was paid. The building was reopened for business on or about March 1, 2007.

During the construction phase it was noted that the Order had no insurance on the home office. In fact, the building was completed in February, 2007 and the Order did not apply for physical damage and liability insurance on this building until April 11, 2007.

The Order now has physical damage, commercial liability and flood insurance coverage on its home office.

Records/files damaged by Hurricane Katrina's flood waters

The flood waters from Hurricane Katrina reached about two to three feet in the home office of the Order and certain documents were under water for about two weeks. After the water receded, these documents were placed in storage units nearby. An accurate listing of these items was not available as these items were quickly put into storage and an inventory had not been completed.

With these items being underwater for two weeks and then put in storage for over a year and a half, the legibility and usefulness of these documents was highly questionable. During the 2006 examination, the Order contracted with a firm to retrieve the items out of storage.

One of the significant items that were put into the storage facility was the application files which are the original source document for the Order's In-Force policy listing. The application files were in hard-copy format and did not have any back-up in the event the original got lost, damaged or misplaced. Even though the Order has had a Disaster Recovery Plan in effect for numerous years, this plan tended to lean toward the back-up and recovery of electronic files and fell far short of the mark in relation to the Order's paper files.

If the Order had taken a more expedient approach with their hard-copy files, it is likely that many could have been retrieved and salvaged.

Supervision

On or about July 10, 2006, the Order was placed under Supervision by the Alabama Department of Insurance. This is explained in further detail in the "Subsequent Events section" – page 30 of this examination report.

Detailed discussions and additional commentary on the above matters may be found in the **COMMENTS AND RECOMMENDATIONS** section of this full-scope examination report, under the various captions to which they relate.

MANAGEMENT AND CONTROL

The supreme legislative body of the Order is the National Council. All executive authority of the National Council is vested between conventions in a Board of Directors, which meet immediately before and after the annual national conventions. The members of the Board of Directors of the National Convention at December 31, 2006 were:

<u>Director</u>	<u>Title</u>
Gene A. Phillips, Sr.	Supreme Knight
Paul Jones, Jr.	Deputy Supreme Knight
James Kelley Terry	National Secretary
Philip B. Stiell	National Treasurer
Vincent Wilkins, Jr.	National Advocate
George J. Williams	Director/Trustee
James A. Coleman	Director/Trustee
Arthur C. McFarland	Director/Trustee
David L. Moore	Director/Trustee
Oscar J. Benoit	Director/Trustee
James Ellis	Director/Trustee
Anderson F. Shaw	Director/Trustee
Howard Crawford	Director/Trustee
Leonard V. Stiell	Director/Trustee

The National Court is composed of representatives of the Knights of Peter Claver Ladies Auxiliary. This division does not have legislative powers but it does pass and send resolutions to the National Council on matters pertaining to the Ladies Auxiliary. Officers and Directors of the National Court at December 31, 2006 were as follows:

<u>Officer</u>	<u>Title</u>
Mrs. Geralyn C. Shelvin	Supreme Lady
Ms. Yvonne H. Jackson	Vice Supreme Lady
Ms. DeLise Coleman	National Secretary
Ms. Melissa Sias	National Treasurer
Mrs. Diane T. Asberry	National Counselor Jr. Daughters
Mrs. Mary L. Briers	Past Supreme Lady
Mrs. Cynthia Lyons-Jackson	State Deputy of Louisiana
Ms. Micaela LeBlanc	District Deputy of Western States
Ms. Loretta Richardson	District Deputy of Central States
Mrs. Nan Arceneaux	State Deputy of Texas
Mrs. E. Annetta Wilson	District Deputy of Northern States
Mrs. Gwendolyn Lewis	District Deputy of Gulf States

Conflict of Interest

In the last full-scope examination the Order had several instances with not having conflict of interest statements for all of its board members for a given year. However, during this full-scope examination the Order provided an updated Conflict of Interest Policy along with signed Conflict of Interest Statements covering the two –year time period that all the board members serve.

FIDELITY BOND AND OTHER INSURANCE

The Order could not provide a copy of a Fidelity Bond so the examiners were not able to determine that the Order met the minimum requirements for fidelity coverage, as defined by NAIC guidelines. The Order could not provide a Fidelity Bond during the 2005 limited-scope examination as well.

However, the Order maintained:

Commercial General Liability Insurance

Commercial Property Insurance

Commercial Excess Liability Insurance

Flood Insurance

Employee Welfare

Benefits provided by the Order to its employees included the following at December 31, 2006:

Paid holidays

Paid Annual Leave

Vacation

Sick or Personal Leave

Major Medical Insurance*

Retirement Plan**

*The employees have an employee-funded pension plan 403(b), but the Executive Director did not have any information relative to the plan as the records were destroyed by the flood waters of Hurricane Katrina.

**The employees have a Major Medical plan that is subsidized by the Order. However, there was no mention of this in the employees' policy manual. Further when asked, the Executive Director had no supporting detail on the Major Medical plan.

ACCOUNTS AND RECORDS

Accounting System

During the examination, it was noted that the Company's principal accounting records were maintained primarily on electronic data processing equipment. However, there were certain detail and subsidiary records that were kept in a manual format.

For the year 2004, the Order was audited by its opining certified public accounting (CPA) firm from New Orleans, Louisiana. It was noted that this accounting firm also conducted all of the Order's audits for 1998 through 2002,

which was the five-year period covered by the previous full-scope examination. Moreover, the previous examination report revealed that this accounting firm has performed the Order's annual audits for the past twenty years.

After Hurricane Katrina, business with the Order and with its opining CPAs became disrupted. The Order's home office was severely damaged, and they relocated to a temporary office in Montgomery, Alabama. During this interim period, the Board of Directors of the Order sought another accounting firm to perform its annual independent audit as well as prepare its annual statement as they determined that the accounting services of its existing CPAs had gotten too expensive. The Order contracted with a CPA firm in Birmingham, Alabama to complete its quarterly and annual statements as the Order had no internal accountant/bookkeeper. These opining CPAs also performed the 2005 financial audit.

This CPA firm also prepared the quarterly statements for 2006 as well as the 2006 annual statement and the 2006 financial audit.

Accounting Records

On or about August 29, 2005, the Order's business routine was drastically interrupted by the flood waters in New Orleans resulting from the wrath of Hurricane Katrina. The home office of the Order was under several feet of water for over two weeks and, as a result, numerous files and documents were immersed under water. After the water receded, these files and documents were hurriedly put into storage facilities. The content of the stored items and the damage to them could not be determined during the limited-scope examination because they had not been inventoried. After being locked up in a portable storage unit for over eighteen months, the likelihood of these documents being retrievable and legible is very minimal.

After the hurricane, the Order temporarily relocated its home office in Montgomery, Alabama and resumed operations. However, the Order became seriously delinquent in the issuance of its 2005 Annual Statement which was due March 1, 2005.

On July 25, 2006, the first version of the 2005 Annual Statement was received by the Alabama Department of Insurance (ALDOI). On October 25, 2006, the second version of the 2005 Annual Statement was received and on February 5, 2007 a third version of the 2005 Annual Statement was received by ALDOI.

In all three versions of the annual statements there were numerous omissions, errors and inconsistencies. To aid in the examination process, the examiners, on numerous occasions, asked the CPAs to provide a listing of the amendments that

were made to the 2005 Annual Statements. A reply to this request has never been received.

Based upon records available to the CPAs, the CPAs were unable to balance the October version of the 2005 annual statement. The CPAs came up with an unsubstantiated and irreconcilable amount to use in the statement in order to make it balance. The calculated amount of unassigned funds was \$2,135,435 while the reported amount was \$2,125,246.

In the July version of the 2005 annual statement, a Federated Treasuries security valued at \$96,289 was properly listed as a short-term investment on Schedule DA. However, it was not included in the Cash balance on the Assets page. In this same annual statement, a common stock (Standard and Poors Dep Receipt) was not listed on Schedule D Part 2, but its value of \$103,966 was nonadmitted from the annual statement. This particular stock is in fact, valued by the SVO and should be an admitted asset.

In the February 5, 2007 version of the 2005 Annual Statement, the Standard and Poors stock is properly reported on Schedule D Part 2 and its value of \$103,966 has been nonadmitted. In this same annual statement, the Federated Treasury for \$96,289 is not reported anywhere and the Whitney Bank confirmation reports this as a security owned by the Order.

During the examination, the examiners noted that the Order had two accounts with Merrill Lynch. However, the examiners could not locate evidence of these Merrill Lynch accounts and their respective balances totaling \$26,002 in the 2005 general ledger or in the 2005 Annual Statement.

The absence of the Merrill Lynch accounts from the 2005 Annual Statement and the general ledger was discussed with the CPA's engagement partner, on April 4, 2007, and he located a summary sheet from Merrill Lynch in his workpaper file. This summary sheet indicated that the Order had \$12,897.66 on deposit with Merrill Lynch at December 31, 2005. However, he had no record of the other account in the amount of \$13,209.12 and he stated that even though there was evidence of an account relationship with Merrill Lynch, he did not pursue this issue further as this was not reported in the 2005 general ledger.

On or about April 11, 2007, a telephonic conversation was held between the examiner and the IT consultant/accountant for the Order, concerning the fact that the Merrill Lynch accounts did not appear on the Order's 2005 general ledger. She consulted her files and noted the absence of the two Merrill Lynch accounts. Also she acknowledged that there was a methodology error within her software program, and she was going to correct this and that, in the future, these accounts would be reported on the general ledger.

However, the above amounts were being held by Merrill Lynch without an approved custodial agreement. A custodian is defined by ALA. ADMIN. CODE 482-1-077-.04 (2003) which states, that a custodian is, in part..."A national, bank, state bank or trust company that shall at all times during which it acts as a custodian...and that is regulated by either state banking laws or is a member of the Federal Reserve System." Since Merrill Lynch is not a bank or a trust company, an approved custodial agreement could not be obtained. As mentioned previously, these Merrill Lynch accounts and their respective balances were not listed on the Order's general ledger and 2005 Annual Statement. If the Merrill Lynch balances were reported in the 2005 Annual Statement, their respective balances would be nonadmitted as they are being housed in a financial institution without a custodial agreement approved by the Commissioner of the Alabama Department of Insurance.

CPA Review of Reserves

For the 2005 examination, the examiner requested the CPAs workpapers on the testing of reserves on numerous occasions and was promised that the workpapers were forthcoming. Finally, the examiner resorted to traveling to the CPAs office in Birmingham to retrieve the aforementioned workpapers. Upon arrival at the CPAs office, it was discovered that there were no CPA workpapers available to peruse and review.

In response to the examiner's inquiries concerning why no audit procedures were performed on the opining actuary's work, and how was it determined that the reserves were fairly stated, the CPA audit manager responded that they depended entirely on the information provided by the actuary. The CPA audit manager stated that they reviewed the credentials and qualifications of the actuary, and found them satisfactory. As a result, the CPAs utilized his workpapers and reported amounts with no further testing.

The NAIC's Annual Statement Instructions state that:

"The insurer shall require the independent certified public accountant to subject the information included in the Supplemental Schedule of Assets and Liabilities...to the auditing procedures applied in the audit of the current statutory financial statements to determine whether the information is fairly stated in all material respects in relation to the basic statutory financial statements taken as a whole and agrees to the insurer's annual statement filed with the state insurance departments and the NAIC."

No tests were performed, no information was obtained, and no conclusions were reached pertinent to the CPA's examination of the opining actuary's reserve calculations; consequently, the examiners could not ascertain how the CPAs

determined the reserves were fairly stated in relation to the statutory financial statements as a whole.

For the 2006 full-scope examination, the opining CPAs workpapers indicated that they performed a test of the Order's 2006 In-Force Files. Twenty-five individual policies were included within the sample they selected. Review of the individual items contained in this listing indicated that the information was copied from the Order's In-Force listing of Converted policies. The CPAs commented that the individual items agreed to a RECNO. This RECNO turned out to be the Record Number in the Excel spreadsheet entitled "Converted" policies which are an integral component of the In-Force listing run.

It was noted that the CPAs selected no samples from the Order's "Group policies" or the "A-F policies."

In summary, the CPAs were comparing the In-Force run to itself. In order to properly test the In-Force, the CPAs should compare the individual components of the In-Force run such as certificate number, insured's name, issue date, beneficiary etc. to this information as it is specifically listed on the application files.

The examiners could not properly complete this test as the Order could not provide the application files as these files were rendered illegible by the flood waters of Hurricane Katrina. Further, these application files were not accessible at the time the CPAs completed their In-Force test because the application files were locked up in a portable storage unit which was not opened until several months after the CPAs performed their test. (also see Alternate In-Force Test section)

PRIVACY STANDARDS

The examiners reviewed the Order's privacy procedures and found the following:

1. The Order does not have a formal training manual. However, the Order does instruct its employees as to the normal procedures for day-to-day handling of nonpublic personal information. The information is distributed in the normal course of the Order's business to internal and affiliated persons only.
2. The Order provides an initial privacy notice which accompanies the approved application of the insured.
3. The Order sends out annual privacy notices to its policyholders.
4. The Order does not disclose any nonpublic information on its policyholders unless required by law. This includes personal health or financial information. For this reason, the Order does not need to provide opt-out statements to its policyholders.

Overall, the examiners determined that the Order was following the privacy procedures and standards contained in ALA. ADMIN. CODE 482-1-122 (2001).

Detailed discussions and additional commentary on the above matters may be found in the **COMPLIANCE WITH PREVIOUS RECOMMENDATIONS AND COMMENTS AND RECOMMENDATIONS** sections of this full-scope examination report, under the various captions to which they relate.

FINANCIAL STATEMENTS

EXCEPTIONS WILL BE DULY NOTED WITHIN THE FOLLOWING FINANCIAL STATEMENTS. OTHERWISE, AMOUNTS REPORTED IN THE ORDER'S DECEMBER 31, 2006 ANNUAL STATEMENT WILL BE UTILIZED.

Financial statements included in this report, which reflect the operations of the Order for the years under this full-scope examination and its financial condition at December 31, 2006, consist of the following:

	<u>Page</u>
Statement of Assets, Liabilities, Surplus, and Other Funds	21
Comparative Summary of Operations	22
Reconciliation of Capital and Surplus	23

**THE NOTES IMMEDIATELY FOLLOWING THE FINANCIAL STATEMENTS
ARE AN INTEGRAL PART THEREOF.**

STATEMENT OF ASSETS, LIABILITIES, SURPLUS AND OTHER FUNDS

For the year ended December 31, 2006

ASSETS

	<u>Ledger Assets</u>	<u>Non-Admitted Assets</u>	<u>Admitted Assets</u>
Bonds (NOTE 1)	\$ 2,379,133		\$ 2,379,133
Preferred stock (NOTE 2)	315,095		315,095
Common stock (NOTE 3)	388,119	17,308	370,811
Mortgage loans-first liens	38,656	29,498	9,158
Real estate-property occupied by the Order (NOTE 4)	374,989	111,856	263,133
Real estate-held for production of income	13,341	10,796	2,545
Cash (NOTE 5)	674,834	77,879	596,955
Uncollected premiums and agents' balances (NOTE 6)	0		0
Sub total	4,184,167	247,337	3,936,830
Investment income due and accrued	34,627	0	34,627
Aggregate write-in for other than invested assets	112,471	112,471	0
	<u>\$ 4,331,265</u>	<u>359,808</u>	<u>\$ 3,971,457</u>
Total Assets			

LIABILITIES SURPLUS AND OTHER FUNDS

Liabilities

Aggregate Reserve for Life Contracts (NOTE 7)	\$ 1,359,609
Contract Claims-Life- (NOTE 7)	125,092
Premium received in advance (NOTE 6)	0
Interest Maintenance Reserve	
General Expenses Due and Accrued	36,277
Amounts withheld by society as agent (NOTE 8)	40,351
Asset Valuation Reserve (NOTE 9)	99,066
Aggregate Write-Ins for Liabilities	5,121
Sub total	<u>\$ 1,665,516</u>

Surplus and Other Funds

Unassigned funds (NOTE 10)	<u>\$ 2,306,031</u>
Total capital and surplus	<u>\$ 2,306,031</u>
Total Liabilities, Surplus and Other Funds	<u>\$ 3,971,547</u>

COMPARATIVE SUMMARY OF OPERATIONS

	For the years ended		
	<u>2006</u>	<u>2005</u>	<u>2004</u>
<u>Income:</u>			
Premium considerations	\$ 1,208,345	\$ 1,208,882	\$ 1,256,170
Net investment income	203,315	81,529	163,052
Amortization of Interest Maintenance Reserve	(3,018)	(3,017)	(3,017)
Aggregate write-ins for miscellaneous income	810,855	733,891	342,223
Total income	<u>\$ 2,219,497</u>	<u>\$ 2,021,285</u>	<u>\$ 1,758,428</u>
<u>Deductions:</u>			
Death benefits	\$ 409,241	\$ 415,668	\$ 492,510
Increase in aggregate reserve for life contracts	\$ (12,692)	\$ 63,083	\$ (29,662)
General insurance expenses & fraternal expenses	\$ 1,712,069	\$ 1,540,729	\$ 1,332,844
Total Deductions	<u>2,108,618</u>	<u>2,019,480</u>	<u>1,795,692</u>
<u>Income less Deductions</u>			
Net gain from operations	\$ 110,879	\$ 1,805	(37,264)
Net realized capital gain (loss)	<u>65,527</u>	<u>69,899</u>	<u>(950)</u>
Net Income (Loss)	<u>\$ 176,406</u>	<u>\$ 71,704</u>	<u>\$ (38,214)</u>

RECONCILIATION OF CAPITAL AND SURPLUS

	For the years ended December 31,	
	<u>2006</u>	<u>2005@</u>
Capital and surplus, January 1,	\$ 2,165,135	\$ 1,936,588
Net income	176,406	71,704
Change in net unrealized capital gain or (losses)**	13,224	32,743
Change in non-admitted assets	(6,288)	96,093
Change in Asset Valuation Reserve	(42,446)	38,698
Change in capital and surplus during year	<u>140,896</u>	<u>239,238</u>
Capital and surplus, December 31,	<u>\$ 2,306,031</u>	<u>\$ 2,175,826</u>
		<u>\$ 2,089,202</u>
		(38,214)
		34,032
		(122,273)
		(26,159)
		<u>(152,614)</u>
		<u>\$ 1,936,588</u>

**Order did not report any gains or losses in 2006
 @2005 Capital and Surplus total includes \$10,690 adjustment
 to surplus per examination; opining CPAs did not utilize these
 adjustments for beginning balance in 2006

NOTES TO THE FINANCIAL STATEMENTS

Note 1 – Bonds

\$2,379,133

The captioned amount is \$11,014 more than the \$2,368,119 reported by the Order in its 2006 Annual Statement. The Order included a twenty-four month certificate of deposit as a Short-Term Investment in its Annual Statement. This particular certificate of deposit has a maturity term of two years. According to SSAP No. 26, paragraph 2, of the Accounting Practices and Procedures Manual, which states in part..."certificates of deposit with a maturity date in excess of one year... should be classified as bonds."

Further, this particular certificate of deposit is being held by the South Carolina Department of Insurance as a special deposit and should be reported as such in Schedule E Part 3 Special Deposits of the 2006 Annual Statement.

Note 2 – Preferred stocks

\$315,095

The captioned amount is the same as reported by the Order in its 2006 Annual Statement. This amount agreed to the confirmation received from the Order's custodial bank.

Note 3 - Common stocks

\$370,811

The captioned amount is \$44,722 more than the \$326,089 reported by the Order in its 2006 Annual Statement. The Order nonadmitted the security, Standard & Poors Dep Receipt, Cusip #78462F103, valued at \$62,030, from its admitted assets. The Whitney bank confirmation listed this stock but the Order's Schedule D - Part 2 Section 2 did not report this stock. However, on the Assets page of the 2006 AS, the Order included the market value amount of \$62,029 in with Assets on line 2.2. column 1, but they also non-admitted the amount of \$62,029. In short summary, this particular stock is valued by the SVO and should not have been non-admitted. The examiner will admit this common stock and adjust the ledger balance and the net admitted balance of common stocks to \$388,119. This same stock was non-admitted in the 2005 limited-scope examination and it was recommended by the examiners to admit the value of this common stock as an asset at that time.

Also, the examiners nonadmitted \$17,308 from the above adjusted balance of \$388,119. The Order was maintaining two funds at Merrill-Lynch which is not an approved custodian.

Note 4 - Properties occupied by the Order

\$152,731

The captioned amount is the same as reported in the Order's 2005 Annual Statement. However, it was noted that the Order did not report in its 2005 Annual Statement, that its home office was damaged severely by the flood waters resulting from Hurricane Katrina which occurred on or about August 29, 2005. The values reported for Properties occupied by the Order in the 2005 Annual Statement did not indicate that any damage had occurred whatsoever.

To complicate the issue, the last appraisal on the home office realty was in 1996. ALA. CODE §27-37-7 (1975) states, in part... real property held by an insurer shall not be valued at an amount in excess of fair value as determined by a recent appraisal...less than three years old.

The lack of a current market appraisal was discussed in the exit conference of the last full-scope examination which occurred in 2003, and the Order was supposed to have a current market appraisal on the property available in 2006.

Even though no estimate of the damages or the cost to rebuild were available, in accordance with SFAS 144, of the Financials Accounting Standards Board, the Order should have disclosed in its 2005 Annual Statement that its home office and its accompanying valuation were severely impaired by the flood waters of Hurricane Katrina. Within this disclosure, the accounting methodology associated with the impairment should have been reported. Also, SSAP No. 5 paragraph 14, of the Accounting Practices and Procedures Manual states, in part..."disclosure of the loss contingency or impairment of the asset shall be made in the financial statements when there is at least a reasonable possibility that a loss or an additional loss may have been incurred. The disclosure shall indicate the nature of the contingency and shall give an estimate of the possible loss or range of loss or state that such an estimate can not be made."

With the lack of a current appraisal coupled with the damages from the flood waters, the examiners are not able to attest to the value of the home office property as of December 31, 2005.

In the 2006 Annual Statement there was no mention of the repairs performed to the Order's home office. There was no mention of the useful life of this asset being affected by the extensive repairs that were done. There was no mention of a new depreciation schedule being developed.

The Order's home office was completed in March, 2007 and a continuation of the discussion relating to the home office is found under the "Subsequent Events" section of this report.

<u>Note 5 - Cash</u>	<u>(\$88,893)</u>
<u>Short-term Investments</u>	<u>(\$11,014)</u>

The captioned amounts are \$88,893 less than and \$11,014 less than the amounts reported in the 2006 Annual Statement, respectively.

The examiners had difficulty in verifying the year-end balances in all of the Order's checking accounts with Liberty Bank as well as Whitney Bank as the December 31, 2006 reconciliations for these accounts could not be provided by the Order. As a result, the amount of \$88,344 will be nonadmitted. (see Unassigned Funds note for listing of these accounts).

The Order had two accounts at Merrill Lynch totaling \$549. Merrill-Lynch is not an approved custodian and the amount of \$549 will be nonadmitted.

The Order misclassified a certificate of deposit valued at \$11,014 that had a two-year maturity date as a Short-term Investment in its 2006 Annual Statement. According to SSAP No. 26, paragraph 2, of the Accounting Practices and Procedures Manual, which states in part..."certificates of deposit with a maturity date in excess of one year...should be classified as bonds."

<u>Note 6 - Uncollected premiums and agents' balances</u>	<u>\$0</u>
<u>Premiums and annuity consideration</u>	<u>\$0</u>
<u>received in advance</u>	

The captioned amount is the same as reported by the Order in its 2006 Annual Statement. The total advance premiums were \$82,216, and the total arrear premiums were \$78,633. It appears as advance and arrear premiums offset each other. However, the Order should report these amounts rather than not reporting anything for these line items.

<u>Note 7 - Aggregate reserves for life certificates</u>	<u>\$1,359,609</u>
<u>and contracts</u>	
<u>Contract claims</u>	<u>\$125,092</u>

The captioned amounts for Aggregate reserves for life certificates agreed to the amount reported in the Order's December 31, 2006 Annual Statement.

The captioned amount reported for Contract Claims is \$22,877 more than the \$102,215 reported in the 2006 Annual Statement. The Order did not compute the claim liability with an actuarial methodology. The actual claims paid during the first 9 months of 2007 that were incurred in a prior year exceed the amount

recorded as a claim liability by \$20,433. Thus an examination adjustment of \$20,433 will be made to Contract Claims.

Also, the Order did not record a claims adjustment expense liability in accordance with Annual Statement or SSAP No. 55 of the Accounting Practices and Procedures Manual requirements. The examination report will reflect a claim adjustment expense liability of \$2,044 to Contract Claims.

The opining actuary was unable to provide the methodology used to calculate the incurred but not reported claim liability. The workpapers provided to the examination actuary did not detail how the claim liability was established. The opining actuary stated that the auditor had established the claim liability, but the actuarial certification requires that the opining actuary certify to that liability.

The certificate as currently issued to members of the Order and issued since the last examination and the date of the hearing still contains the language with regard to the 1941 CSO Mortality Table. Thus the Order has not complied with the strong recommendation of the Commissioner of Insurance. On those certificates subject to the 50 year membership rider, the Order has complied with the previous examination recommendation and is now computing reserves based upon a paid up life insurance policy. However, the Order was unable to provide to the financial examiner records that would enable him to verify the reserve determinants. Thus the examination actuary is unable to verify the sufficiency or adequacy of the reserves.

Note 8 - Amounts Withheld or Retained by Society as Agent \$40,351

The examiner requested the detail supporting Amounts Withheld by Society as Agent. The amount of \$30,872 represents the Unpaid death claims that are one year or older and the remaining \$9,479 is payroll-related. However, this list of Unpaid Death Claims reports information for 2004 and prior years for women only. There is no information relating to 2005 and 2006 and no information on men at all.

The examiner selected a sample from the supporting detail that was provided. The sample of 15 listings was given to the Order so that they could provide the detail on the requested items. The requested files were received and they were difficult to follow. The detail indicated that a check was in fact written but there was no evidence of a written check in the file. It was discerned that a column within the listing indicated as Cert. #, at times was the actual certificate number of the policy in question and in three instances of the fifteen in the sample, was the check number relating to the death payment. In the files submitted to the examiner, there was evidence of decedent's deaths dated in the years 1927, 1933, 1937 and 1942 respectively. It appears as though the Order is holding the money on these unclaimed property claims, but the actual amount can not be determined as the complete detail has not been provided to the examiners.

Even though detail was provided that agreed to the 2006 Annual Statement, the amount of \$30,872 can not be an accurate figure as of the reporting period of December 3, 2006.

Note 9 - AVR Calculation

\$99,066

The captioned amount is \$28,660 more than the amount reported in the 2006 Annual Statement. The amounts of the Order's bonds and common stocks were changed during the examination and the AVR was recalculated.

The recalculated reserve, correcting the errors noted above, resulted in the \$28,660 increase.

SEE NEXT PAGE FOR UNASSIGNED FUNDS CALCULATION

NOTE 10 -UNASSIGNED FUNDS**\$2,306,032**

The captioned amount is \$84,694 less than the \$2,390,726 reported by the Order in its 2006 Annual Statement.

Unassigned funds balance per Company**\$2,390,726**Examination increase/(decrease) to assets:

Bonds – Whitney Checking	\$11,014
Common stocks	\$44,722
Cash-	
Liberty Bank Checking	(\$286)
	(\$26)
Merrill-Lynch	(\$523)
	(\$604)
Whitney CD	(\$11,014)
Whitney Bank Checking	(\$76,440)

TOTAL (DECREASE) TO ASSETS

(\$33,157)

Examination (increase)/decrease to liabilities:

Increase in Contract Claims	(\$20,833)
Increase in Claim Adjustment Expense	(\$2,044)
Increase in AVR	(\$28,660)

TOTAL (INCREASE) TO LIABILITIES

(\$51,537)

Examination increase/(decrease)
to Unassigned Funds

(\$84,694)

Unassigned funds balance per examination**\$2,306,032**

CONTINGENT LIABILITIES AND PENDING LITIGATION

Examination of these items included the following: a review of the Company's statutory financial statement disclosures and obtaining letters of representation from management and the Order's legal counsel.

At the onset of the examination, the Order did not report any contingent liabilities or pending litigation that were deemed to have potential for material adverse action on its surplus. The Order's Supreme Knight, the National Secretary, and the National Treasurer executed the final letter of representation on November 8, 2007 attesting to the non-existence of liabilities and contingencies.

The examination found that the Order has premiums that were written in twenty-five states where it is not duly licensed. This issue has been addressed in the two previous examinations. To date, the Order has not corrected the licensing problems that were cited.

Prior to 1999, the Order issued insurance policies and collected premium payments from insured members in states in which the Order did not hold certificate of authority to engage in the business of insurance; and in 1999, the Order agreed with the Alabama Department of Insurance to cease writing policies in states where the Order did not hold certificates of authority but could collect premium payments on policies issued before the agreement date.

Potential contingent liabilities could result from premiums being written in states where the Order is not licensed.

Details of these are discussed further in "Market Conduct" at page 6.

SUBSEQUENT EVENTS

Supervision

On or about September 6, 2006 the Order was placed under a Consent Order of Supervision because they had not submitted their December 31, 2005 Annual Statement by March 1, 2006 in accordance with the time frame prescribed by ALA CODE. §27-34-36:

Annual statements - Requirements

- (a) Report shall be filed and synopses of annual statements shall be published in accordance with the provisions of this section.

(b) Every society transacting business in this state shall annually, on or before March 1, unless for cause shown such time has been extended by the commissioner, file with the commissioner a true statement of its financial condition, transactions and affairs for the preceding calendar year and pay a fee of \$10.00 for filing same. The statement shall be in general form and context as approved by the National Association of Insurance Commissioners for fraternal benefit societies and as supplemented by additional information required by the commissioner.

(c) A synopsis of its annual statement providing an explanation of the facts concerning the condition of the society thereby disclosed shall be printed and mailed to each benefit member of the society not later than June 1 of each year, or, in lieu thereof, such synopsis may be published in the society's official publication.

The Order did not have an accounting firm as management had contended that the accounting fees with their long-time opining accountants had gotten too expensive. They searched for several months to find a new accounting firm to perform their independent annual audit as well as publish their quarterly and annual statements. The Order contracted with a CPA firm located in Birmingham, Alabama, and the first 2005 Annual Statement was received by the Alabama Department of Insurance on July 25, 2006. Also, the first and second quarter of 2006 statements were received at this same time. Since July 25, 2006, two amended versions of the 2005 Annual Statement were received by the Department on November 22, 2006 and February 9, 2007 respectively. Review of these statements revealed numerous errors and/or omissions and inconsistencies. Also, during this time it was noted that the informal supervision was not productive as the Order was not complying with the covenants of the informal agreement between the Order and the Alabama Department of Insurance. On or about September 24, 2006, the Executive Director of the Order signed a Consent Order of Supervision whereby "the Knights of Peter Claver (Knights) and its officers, directors and employees, and all others who have knowledge of this Supervision Order are prohibited from engaging in the following transactions without the express written approval of the Commissioner of Insurance or his duly authorized Supervisor:

- ☐ Disposing of, conveying or encumbering any of the assets of Knights or its business in force
- ☐ Withdrawing any monies from Knights' bank or checking accounts
- ☐ Lending any of Knights' funds;
- ☐ Investing any of Knights' funds;
- ☐ Transferring any of Knights' properties;

- ☐ Incurring any debt, obligation or liability on behalf of Knights;
- ☐ Entering into any new reinsurance contract or treaty on behalf of Knights;
- ☐ Issuing to the public any automobile warranty policies backed by Knights;
- ☐ Destroying any records including hard copy or software.

The Order has failed to fully cooperate with the Supervisor for the Alabama Department of Insurance in that it has not provided any information relating to the investing of any of Knights' funds. Also, the Order did not provide the necessary documentation required for the Supervisor to approve all disbursements prior to being paid.

A Show Cause Order was issued to the Knights on January 25, 2007 because the actuarial opinion and audited financial statements submitted for 2005 from the Order's outside actuary and auditors were full of errors and inconsistencies. Both of these documents appeared to have little or no supporting documentation.

The Knights, even though it is under the Supervision of the Alabama Department of Insurance, has failed to respond to the Department's inquiries regarding the errors found in its financial statements. The Order has not demonstrated any progress in hiring staff members with knowledge and experience in statutory accounting.

"Inasmuch as Knights has not followed the NAIC Annual Statement instructions prescribed by the NAIC Accounting Practices & Procedures Manual as required by Department Regulation Chapter 482-1-097 nor has it filed its other financial statements correctly together with the other enumerated issues, it is hereby **ORDERED** that Knights **SHOW CAUSE** as to why the Department should not suspend its Certificate of Authority until such time as it has taken the necessary corrective actions to resolve these issues."

On February 13, 2007, the Alabama Department of Insurance received a response from the Executive Director of the Knights. He stated that the CPAs filed an amended 2005 Annual Statement as well as amended quarterly statements for 2006. However, review of these documents indicates that the errors and/or omissions continue. The Executive Director stated that the Knights was fully cooperating with the Department's Supervisor as regards the payment of the bills of the organization. The review of the communication of the electronic mail between the Supervisor and the Order indicates that this problem still exists. It appears they are paying bills prior to obtaining the approval of the Supervisor.

The Order provided a response as regards the documentation supporting the CPA firm's and the Actuary's calculations. Also provided was a CD containing details relating to the Aggregate Reserves of the Order. However, there was no detail or methodology supporting the \$900,000 contingency reported on the actuary's worksheet.

On or about March 26, 2007 the Order of Supervision was extended for another 180 days. Communication with the Chief Receiver for the Alabama Department of Insurance indicated that the Order was abiding by the conditions set forth in the Supervision Order and on or about September 21, 2007, the Order of Supervision lapsed on its own design and no efforts were taken to reinstate the Order of Supervision.

The financial examiner questioned the Executive Director as to the status of the accountant that was to be hired from the pool of applicants that resulted from the job being listed on an employee search web-site. As of March 9, 2007 the accountant position had not been filled. Further, of the 32 applicants on the listing, none were versed in statutory accounting.

On or about April 9, 2007, the Order hired a new accountant purportedly versed in statutory accounting. The new accountant is to work in conjunction with the CPAs and will begin to prepare the quarterly and annual statements. Also, she will perform the day-to-day accounting activities such as maintaining the general ledger and reconciling the bank statements at a minimum, on a monthly basis.

Home Office Appraisal

On or about April 16, 2007, a current market appraisal on the home office was received by the examiners. This appraisal lists the home office, by sales comparison approach, to be valued at \$580,000. The examiner reviewed this appraisal and noted that the appraisal was performed at the request of a lender. The financial examiner questioned the Executive Director of the Order as to whether or not they were going to leverage the home office for a loan, and he said no and that the appraiser had made an error.

Also, there was an error in the appraiser's calculation. The appraiser stated, "The adjusted comparables range from \$44.82 PSF to \$82.92 PSF. It is the opinion of the appraiser that the subject value is closer to the middle of the value range. The appraiser estimated that the value of the subject property to be \$83.00 per square foot. When the \$83.00 per square foot estimate is applied to the 6,983 square feet of the subject, the estimated value of the subject property is \$579,850, rounded to \$580,000."

If the appraiser used the middle of the value range, the calculation would be \$64.00 per square foot. When the \$64.00 per square foot is applied to the 6,983

square feet of the subject property, the estimated value of the subject property is \$446,912, a material difference of \$133,088.

The Order's home office was refurbished and the new appraisal on this realty would serve as supportive detail of the new admitted value that needs to be established on this property.

After Hurricane Katrina, the physical damage insurance on the Order's home office was cancelled. As mentioned elsewhere, the Order did have flood insurance which did pay the Order's claim for damages caused by the flood waters resulting from Hurricane Katrina, but they could not provide evidence of this coverage.

However, during the reconstruction of the Order's home office there was no physical damage insurance on the home office in force. The Order completed the refurbishing of the home office and on or about March 2007, the home office was open for business. The Executive Director provided evidence where the Order has obtained property and liability coverage on the home office for 2007.

Corrective Action Plan

On March 14, 2007, the analyst at ALDOI wrote the Order a letter concerning the numerous errors and inconsistencies found in the 1st, 2nd and 3rd quarter financial statements. The letter stated, "If the deficiencies in the three quarterly statements are not corrected;, [sic] the Department will consider employing its own experts to reconstruct and file financial statements for Knights of Peter Claver. This is within our discretion under ALA. CODE §27-2-23(c)(1975)."

In response to this letter, a meeting was requested by the National Treasurer of the Order. On March 23, 2007, a meeting was held at ALDOI with the Order's National Treasurer, and at the meeting representing ALDOI was the examiner-in-charge; the Assistant Chief Examiner; the analyst; an Assistant Attorney General and the Chief Receiver. During the meeting, the examiner-in-charge and the analyst expressed their concerns relating to the erroneous financial statements and financial condition of the Order. It was discussed that the Order needed to hire an internal staff accountant who was versed in statutory accounting.

On March 26, 2007, the analyst wrote a letter to the Supreme Knight, and summarized the issues discussed in the March 23rd meeting which was held with the Order's National Treasurer. Also, this letter requested that the Order present a written corrective action plan for resolving the Order's financial problems. Further, the letter stated that it was essential that the Order hire a staff member with knowledge of statutory accounting and preparation of financial statements for insurance companies.

In addition, the corrective action plan "would need to address how the present financial statements are to be corrected, as well as maintained going forward. It

would need to address your plans regarding an actuary and certified public accountant, as well as staff members that would be responsible for preparation of financial statements."

On April 9, 2007, the analyst for ALDOI sent a letter to the Order requesting additional information and/or documentation relating to the December 31, 2006 Annual Statement. Once again, it was mentioned that if the deficiencies were not corrected, ALDOI was going to consider hiring forensic accountants to reconstruct the Order's financials.

On April 10, 2007, the Supreme Knight requested an acceptable format with which to submit their corrective action plan.

On April 12, 2007, ALDOI sent a letter along with a template of a business plan to the Supreme Knight. This letter also requested:

- a profile on the Order's newly hired internal accountant
- plans relating to the Order's certified public accountant and actuary
- long-term plans regarding insurance

On April 24, 2007, the Supreme Knight submitted a corrective action plan to ALDOI which had been approved by the Order's Executive Committee. This corrective action plan addressed the issues relating to the erroneous financial statements; the Order's plan of action; the responsible party(ies) for performing the action; and the timeframe to complete the action.

According to the Order's Plan of Corrective Action, a new staff accountant was hired on April 9, 2007, and she is currently working with the opening certified public accountants to facilitate the corrections to the financial statements.

The Plan of Corrective Action is in its infancy. Its success and the solvency of the Order are yet to be determined.

Merrill-Lynch accounts

A review of the Order's Third Quarter 2007 financial statement revealed that the Order was still maintaining funds at Merrill-Lynch. The review indicated that the two accounts totaled \$21,739.

COMPLIANCE WITH PREVIOUS RECOMMENDATIONS

Territory and Plan of Operation – page 5

The Order has not complied with the previous recommendation stating

that they become duly licensed in states where they have written insurance premiums.

It is again recommended that the Order obtain licensing in all states where it writes business and/or has written business. This has been recommended in the prior two examinations.

Aggregate Reserves for Life Certificates and Contracts-page 8

The Order has not complied with the previous recommendation stating that the opining actuary incorporate into the actuarial opinion the date he was appointed by the Board of Directors.

It is again recommended that the opining actuary incorporate into the actuarial opinion the date he was appointed by the Board of Directors as the valuation actuary.

The Order has not complied with the previous recommendation stating that they complete the Analysis of Increase in Reserves during the Year in accordance with Annual Statement Instructions.

It is recommended that the Order complete the Analysis of Increase in Reserves During the Year in accordance with the Annual Statement instructions.

Fidelity Bond and other Insurance - page 14

The Order has not complied with the previous recommendation stating that they obtain Fidelity Bond coverage that meets the minimum requirements set forth by NAIC guidelines.

It is again recommended that the Order obtain a Fidelity Bond that meets the minimum requirements as set forth by NAIC guidelines. This was recommended in the recent limited-scope examination.

It is again recommended that the Order maintain its records and insurance policies in accordance with ALA. CODE § 27-27-29(a)(1975), which states:

“Every domestic insurer shall have, and maintain, its principal place of business and home office and shall keep therein complete records of its assets, transactions and affairs in accordance with such methods and systems as are customary or suitable as to the kind, or kinds, of insurance transacted.”

Accounts and Records- page 15

The Order has not complied with the previous recommendation stating that it complete all necessary schedules and exhibits in its quarterly and annual statements.

It is again recommended that the Order complete all necessary schedules and exhibits in its quarterly and annual financial statements in accordance with the NAIC Annual Statement Instructions.

It is again recommended that the Order maintain its records in accordance with ALA. CODE § 27-27-29(a)(1975), which states:

“Every domestic insurer shall have, and maintain, its principal place of business and home office in this state and shall keep therein complete records of its assets, transactions and affairs in accordance with such methods and systems as are customary or suitable as to the kind, or kinds, of insurance transacted.”

The Order has not complied with the previous recommendation stating that the Order’s CPAs not perform the Order’s annual audit and the Quarterly and Annual Statements.

It is again recommended that the CPA firm engaged to perform the Order’s annual financial audit demonstrate independence and not perform other accounting functions for the Company, including, but not limited to, the compilation of Quarterly and Annual Statements.

The Order has not complied with the previous recommendation stating that the Order must maintain its funds with an approved custodian.

It is again recommended that the Order maintain its funds in a national bank, state bank or trust company governed by a custodial agreement approved by the Commissioner of the Alabama Department of Insurance in accordance with ALA. ADMIN. CODE 482-1-077-.04 (2003) which states, that a custodian is, in part...

“A national, bank, state bank or trust company that shall at all times during which it acts as a custodian...and that it is regulated by either state banking laws or is a member of the Federal Reserve System.”

CPA Review of Reserves – page 18

The Order has not complied with the previous recommendation stating

that the Order's CPAs test the opening actuary's reserve calculations.

It is again recommended that the Company require that its independent CPAs test the opening actuary's reserve calculations in accordance with guidelines established by the NAIC's Annual Statement Instructions in order to determine that the reserves are "fairly stated in all material respects in relation to the basic statutory financial statements taken as a whole and agrees to the insurer's annual statement filed with the state insurance departments and the NAIC.

Notes to Financial Statement- Bonds-Note 1 - page 24

The Order has not complied with the previous recommendation stating that it reclassify its twenty-four month certificate of deposit as a bond.

It is again recommended that the Order classify its twenty-four month certificate of deposit as a bond in accordance with SSAP No. 26, paragraph 2 of the Accounting Practices and Procedures Manual, which states in part..."certificates of deposit with a maturity date in excess of one year... should be classified as bonds."

Notes to Financial Statement –Common Stocks- Note 3 - page 24

The Order has not complied with the previous recommendation stating that it refrain from nonadmitting common stocks that are an admitted asset.

It is again recommended that the Order refrain from nonadmitting common stocks that are considered an admitted asset.

Notes to Financial Statement – Real Estate-Properties Occupied by the Order –Note 4 – page 25

The Order has not complied with the previous recommendation stating that they adjust the value of its home office.

It is again recommended that since the home office was severely damaged, the Order adjust the value of this realty accordingly, and disclose within its notes to financial statements, the methodology utilized to effect such impairment in accordance with SSAP No. 5 paragraph 14, of the Accounting Practices and Procedures Manual which states, in part..."disclosure of the loss contingency or impairment of the asset shall be made in the financial statements when there is at least a reasonable possibility that a loss or an additional loss may have been incurred. The disclosure shall indicate the nature of the contingency and shall

give an estimate of the possible loss or range of loss or state that such an estimate can not be made."

It is further recommended that the Order readjust the value of the home office after the repairs to the property are completed and enhancements have been made.

It is again recommended that the Order obtain and maintain a current real estate appraisal on its home office that is accurate and reflects the true value of the property in accordance with ALA. CODE §27-37-7 (1975) which states, in part... "real property held by an insurer shall not be valued at an amount in excess of fair value as determined by a recent appraisal...less than three years old."

Notes to Financial Statement-NOTE 5- Cash-page 26

The Order has not complied with the previous recommendation stating that they maintain accurate records of its cash transactions.

It is again recommended that the Order maintain accurate records of its cash accounts in accordance with ALA. CODE § 27-27-29(a)(1975), which states:

"Every domestic insurer shall have, and maintain, its principal place of business and home office and shall keep therein complete records of its assets, transactions and affairs in accordance with such methods and systems as are customary or suitable as to the kind, or kinds, of insurance transacted."

It is again recommended that the Order reconcile its checking accounts on a timely, at least monthly, basis.

It is again recommended that the Order classify certificates of deposit with relation to their individual maturity. If the maturity exceeds one year, the certificate of deposit is classified as a bond.

Notes to Financial Statement – Note 6 – Uncollected premiums and agents' balances and annuity considerations received in advance

The Order has not complied with the previous recommendation stating that they maintain accurate records of its cash transactions – page 26.

It is again recommended that the Order report the calculated amounts for the above line items

Notes to Financial Statement-NOTE 7-Aggregate Reserves of Life Certificates - page 26

It is recommended that the Order maintain its records and reserves in accordance with ALA. CODE § 27-27-29(a)(1975), which states:

“Every domestic insurer shall have, and maintain, its principal place of business and home office in this state and shall keep therein complete records of its assets, transactions and affairs in accordance with such methods and systems as are customary or suitable as to the kind, or kinds, of insurance transacted.”

Subsequent events – page 30

The Order has not complied with the previous recommendation stating that it not maintain funds with Merrill-Lynch, a non-approved custodian.

The September 30, 2007 Quarterly Statement indicated funds were being held at Merrill-Lynch.

It is again recommended that the Order not maintain funds with a non-approved Custodian.

COMMENTS AND RECOMMENDATIONS

Market Conduct – page 5

Territory and Plan of Operation

The Order provided certificates of authority for the following states:

Alabama

District of Columbia

Louisiana

Maryland

Nebraska

Oklahoma

Pennsylvania

South Carolina

Texas

Virginia

As indicated, the Order provided a certificate of authority for the state of South Carolina. However, Schedule T did not indicate that the Order was licensed in South Carolina. Further, the Order is reporting premiums written in a total of thirty-four (34) states and territories. Thus, the Order was not properly licensed in twenty-four (24) states.

It is again recommended that the Order obtain certificates of authority in states where premiums have been written and that they accurately report the states in which they are licensed in Schedule T of the Annual Statement.

Complaint Register

It is recommended that the Order maintain a complaint log in accordance with Complaint Handling Standard 1 of the NAIC Market Conduct Handbook, and ALA. CODE § 27-27-29(a) (1975), which requires that an Order maintain all records of its insurance transactions and affairs.

Complaint Procedures Manual

It is recommended that the Company have written guidelines for complaint procedures to ensure that complaints are satisfactorily distributed, recorded and responded to, and communicate this to policyholders as defined by Complaint Handling Standard 2 of the NAIC Market Conduct Handbook.

Treatment of Claimants

It is recommended that the Order maintain its records in accordance with ALA. CODE § 27-27-29(a)(1975), which states:

“Every domestic insurer shall have, and maintain, its principal place of business and home office in this state and shall keep therein complete records of its assets, transactions and affairs in accordance with such methods and systems as are customary or suitable as to the kind, or kinds, of insurance transacted.”

It is recommended that the Order maintain accurate death claim files so that the timeliness of death claim payments could be determined.

Fraud – page 8

It is recommended that the Order require the opining CPAs to perform necessary fraud procedures.

It is recommended that the Order include necessary language, as respects fraud, on its application and claim forms.

In the review of the 2006 CPA workpapers provided to the examiners, it was noted that there were no workpapers relating to the consideration of fraud - page 7

It is recommended that the opining CPAs include the necessary workpapers relating to the consideration of fraud within the Order.

Aggregate Reserve for Life Contracts – page 8

The Analysis of Increase in Reserves and Notes to Financial Statements were not completed in accordance with the Annual Statement instructions. For the Analysis of Increase in Reserves, only the beginning and ending reserves and a balancing item were included in the Analysis. None of the other items such as tabular interest, reserves released on death, etc., were included in the Analysis. The Notes to Financial Statements stated that tabular interest was not required, which is not a correct answer.

It is recommended that the Order complete the Analysis of Increase in Reserves and Notes to the Financial Statements in accordance with the Annual Statement instructions.

It is again recommended that the Order comply with the recommendation contained in the Order from the Commissioner of the Alabama Department of Insurance and amend its constitution and by laws to reflect that it utilizes the 1958 CSO Mortality Table to calculate reserves for its Class "E" members.

It is again recommended that the Order comply with the recommendation contained in the Order from the Commissioner of the Alabama Department of Insurance and amend its constitution and by laws to reflect that it utilizes the 1958 CSO Mortality Table to calculate reserves for its Class "E" members.

During the examination it was found that the Order could not provide supportive documentation and/or files to validate its reserves. As a result, its Aggregate Reserves for Life Certificates and Contracts will be qualified as respects the 2006 Examination Report.

It is recommended that the Order maintain an accurate database of its in-force records in accordance with ALA. CODE § 27-27-29(a)(1975), which states:

"Every domestic insurer shall have, and maintain, its principal place of business and home office and shall keep therein complete records of its assets, transactions and affairs in accordance with such methods and systems as are customary or suitable as to the kind, or kinds, of insurance transacted."

Fidelity Bond – page 14

The examination revealed that the Order did not have Fidelity Bond coverage. Upon request for a Fidelity Bond, the Order provided documentation for a liability insurance policy, but this policy is not a Fidelity Bond nor does it replace a Fidelity Bond.

This issue was discussed in the 2005 Limited-Scope Examination as the Order could not provide evidence of a Fidelity Bond at that time.

It is again recommended that the Order obtain a Fidelity Bond that meets the minimum requirements for fidelity coverage as defined by NAIC guidelines.

Accounts and Records – page 15

During the examination it was noted that the Order has had a disaster recovery plan in effect for several years, but as evidenced by the end result after the flood waters from Hurricane Katrina, the disaster recovery plan proved less than desirable. The plan was geared to electronic files and did not incorporate the many hard-copy files that the Order still uses. The very important hard-copy application files were stored at the Order's home office in a large safe that was not waterproof. As a direct result, the flood waters rendered these files useless. The Order had not copied or imaged these applications and converted them into some form of electronic format that could have been stored elsewhere.

It is recommended that the Order make electronic copies or images of its relevant, important hard-copy documents and files so that these can be stored in a safe environment.

“Every domestic insurer shall have, and maintain, its principal place of business and home office and shall keep therein complete records of its assets, transactions and affairs in accordance with such methods and systems as are customary or suitable as to the kind, or kinds, of insurance transacted.”

It is recommended that the Order update the listing of uncashed death benefit payments on a yearly basis.

It is recommended that the Order include the death benefit payments for men in its uncashed death benefit payments listing.

It is recommended that the Order maintain sufficient detail within its uncashed death benefit listing so that an accurate reporting can be obtained.

It is recommended that the Order maintain accurate addresses of decedents and their beneficiaries.

Bonds – page 24

During the examination it was found that the Order using a designation of "1" for securities that are backed by the full faith and credit obligations of the U.S. Government. These securities were: FHLMC, FNMA and GNMA. These government-backed securities should have a designation of "1FE" as prescribed by the Purposes and Procedures Manual of the NAIC Securities Valuation Office Sections 16 and 17.

It is recommended that the Order use a designation of 1FE for the government-backed securities contained in its investment portfolio.

During the examination of securities, the examiners requested the Broker's Advices relating to several bonds and stocks that were acquired or sold during 2006. The Order could not provide the necessary Broker's advices to permit the testing of the trade date, description, CUSIP, par value, interest rate and cost.

It is recommended that the Order maintain accurate records of its acquisitions and disposals of securities in accordance with ALA. CODE § 27-27-29(a)(1975), which states:

"Every domestic insurer shall have, and maintain, complete records of its assets, transactions and affairs in accordance with such methods and systems as are customary or suitable as to the kind, or kinds, of insurance transacted."

Common Stock – page 24

It is recommended that the Order include the Standard and Poors common stock in its Schedule D Part 2 Section as an asset. It is again recommended that the Order not non-admit this common stock from its assets as it is a bona-fide common stock valued by the NAIC's Securities Valuation Office.

It is recommended that the Order non-admit the Black River Value Fund, Inc common stocks valued at \$17,308 and it is further recommended that the Order, "maintain its funds in a national bank, state bank or trust company governed by a custodial agreement approved by the Commissioner of the Alabama Department of Insurance in accordance with ALA. ADMIN. CODE 482-1-077-.04 (2003) which states, that a custodian is, in part..."A national, bank, state bank or trust company that shall at all times during which it acts as a custodian...and that it is regulated by either state banking laws or is a member of the Federal Reserve System."

Real Estate-Properties Occupied by the Order – page 25

It is recommended that the Order provide accurate accounting methodology as to respect of its home office. The home office was inundated and severely damaged by the flood waters associated by Hurricane Katrina. Subsequently, it

was renovated and repaired. The useful life of the home office needs to be updated and a new depreciation schedule needs to be developed.

Cash – page 26

It is again recommended that the Order reclassify its twenty-four month certificate of deposit for \$11,014 as a bond in accordance with SSAP No. 26, paragraph 2 of the Accounting Practices and Procedures Manual, which states in part..."certificates of deposit with a maturity date in excess of one year...should be classified as bonds."

It is also recommended that this particular certificate of deposit which is being held by the South Carolina Department of Insurance as a special deposit, be reported as such in Schedule E Part 3 Special Deposits of the 2006 Annual Statement.

It is again recommended that the Order perform timely monthly reconciliations of their checking accounts to ensure that year-end balances are accurately reported. This recommendation was also mentioned in the management letter from the Order's former CPAs who performed their independent audit.

Uncollected premiums and agents' balance in the course of collection Premiums and annuity considerations received in advance - page 26.

It is again recommended that the Order report appropriately calculated amounts in future Annual Statements for these line items.

Contract Claims – page 26

The Order did not compute the claim liability with an actuarial methodology. The actual claims paid during the first 9 months of 2007 that were incurred in a prior year exceed the amount recorded as a claim liability by \$20,833. Thus an examination adjustment of \$20,833 will be made to the claim liability.

It is recommended that an adjustment of \$20,833 be made to the claim liability, which makes the claim liability to be reported in the examination at \$123,048.

The Order did not record a claims adjustment expense for the incurred but not reported claim liability.

It is recommended that the Order report a claims adjustment expense liability of \$2,044 for the incurred but not reported claim liability for life insurance claims.

Amounts Withheld or Retained by Society as Agent or Trustee –page 27

It appears that the Order did not update the uncashed death benefit payment listing in 2006. When reviewing the listing that was obtained by the examiners it appears that the Order is not complying with applicable unclaimed property laws.

It is recommended that the Order maintain its records and insurance policies in accordance with ALA. CODE § 27-27-29(a)(1975), which states:

“Every domestic insurer shall have, and maintain, complete records of its assets, transactions and affairs in accordance with such methods and systems as are customary or suitable as to the kind, or kinds, of insurance transacted.”

It is again recommended that the Order document its compliance with unclaimed property laws in the states where it is holding unclaimed funds, including but not limited to the State of Louisiana.

It is recommended that the Order develop an accurate, up-to-date and comprehensive listing of those policies that are eligible for escheatment. Further, the Order needs to escheat those amounts to the various states to which they apply if and when the amounts become eligible for this process.

Asset Valuation Reserve – page 28

The amounts of the Order's bonds and common stocks were changed during the examination and the AVR was recalculated.

The recalculated reserve, correcting the errors noted above, resulted in the \$28,660 increase.

It is recommended that the Order maintain its records and reserves in accordance with ALA. CODE § 27-27-29(a)(1975), which states:

“Every domestic insurer shall have, and maintain, complete records of its assets, transactions and affairs in accordance with such methods and systems as are customary or suitable as to the kind, or kinds, of insurance transacted.”

Subsequent Events- page 30

It is recommended that the Order readjust the value of its home office since this realty has just been refurbished.

It is recommended that the Order maintain funds with approved custodians.

CONCLUSION

Acknowledgement is hereby made of the courteous cooperation extended by persons representing Knights of Peter Claver Insurance Company, Inc. during the course of this examination.

The customary insurance examination procedures, as recommended by the National Association of Insurance Commissioners, have been followed in connection with the verification and valuation of assets and the determination of liabilities set forth in this report, to the extent possible utilizing Company records and accounts.

In addition to the undersigned, Harland Dyer, MAAA, ASA, FCA, representing the Alabama Department of Insurance, participated in this examination of Knights of Peter Claver Insurance Company, Inc.

Respectfully submitted,



Thomas W. Salo, Examiner II
Examiner-in-Charge
State of Alabama
Department of Insurance

November 16, 2007